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HOW TO SECURE AN ELASTIC PAPER CURRENCY.

BY H. C. M'LEOD, GENERAL MANAGER OF THE BANK OF NOVA SCOTIA.

ADDRESSES delivered at the recent Bankers' Convention at Milwaukee have infused fresh life into the currency question, especially into that branch of it which relates to the issue of notes by banks.

The notes issued by the Government and those issued at present by the National Banks, being of practically unchangeable volume, are insufficient to perform the exchanges during the seasons of activity, and the result is a periodical condition of stringency in the money market. At other times of the year these notes accumulate at the financial centres, inflating deposits, reducing rates of interest and fostering speculation. The establishment of an elastic currency would remove one important cause of this annual stringency and redundancy, as such a currency would accommodate itself to the requirements of commerce, expanding and contracting without exercising any disturbing influence upon business. This assertion is based on the experience of other countries that enjoy the economic advantages of an elastic paper currency.

Elasticity can be obtained only through granting to banks the privilege of issuing notes on conditions which will ensure to them a fair profit. Without profit, the incentive to an issuing bank to keep its notes in circulation is wanting. Given the incentive, profit, each bank will send in for daily redemption all other notes held, paying out only its own. Competition and profit are the only effective incentives to daily redemption, the result being that just enough money will be kept in circulation to supply the needs of trade.

Any system falling short of perfect elasticity and adaptability is defective and must prove unsatisfactory. Under the branch banking system a safe and elastic currency is easily developed, but the American public are not ready to discuss branch banking, being in favor of so-called free banking.

The people rightly demand that all the money of the country shall be good everywhere throughout the country, and that notes that by any chance may become worth less than par shall not be authorized by the Government.

As there are some eight thousand banks operating under the National and State banking systems it is plainly impracticable to empower each bank to issue notes unless control of the engraving and printing is retained by the Government, and the notes guaranteed by or the control given to an association comprising all issuing banks, whose guarantee would be so strong as to ensure absolute protection to every note holder. With such a guarantee, the holder would be indifferent as to the name of the bank actually issuing the paper, just as a holder of a National Bank note now is, feeling that it would not matter even if the bank should fail.

It would seem that this might be accomplished by a plan of co-operation and association between such banks in the national system as would elect to come into, and place themselves under the regulation and supervision of, an Association which might be termed the National Bank of Issue, the Association being subject to the supervision of the Government. The powers of this Association should be strictly limited to the issue and redemption of circulating notes, and to the establishment of branches in central reserve cities solely for purposes of redemption. The notes should be issued in a form and manner similar to those now issued by the United States Treasury to National Banks, each note being redeemable on demand in gold by the Association at any of its branches, or by the bank issuing it to the public on presentation at its place of business. Each bank should be required to keep a cash reserve, say twenty-five per cent. of its outstanding notes, deposited with the Association for the redemption of its issues, and should also deposit with the Association a guarantee fund of say five per cent. to be available for the retirement of issues of insolvent banks. The Governing Committee of the Association should be appointed by the banks of the Association. An

efficient staff of bank examiners should be employed, with headquarters at the chief office of the Association. The expenses of the National Bank of Issue, including governmental taxes, should be assessed on the members of the Association in proportion to the average issue of each, and the losses should be apportioned according to the limit of issue of each.

Only the prominent features of the scheme are herein dealt with; the details may be readily worked out should the principle of co-operation receive approval. Such a system as above outlined, if not too heavily taxed, would give a paper currency strikingly similar to and as safe as that of the Government now in use, with as much elasticity as is afforded by any currency in the world.

In adopting it the Government would be making use of the material at hand, and the desired results would be secured without danger of financial disturbance. With the existing facilities for establishing National Banks, and with freedom for each National Bank to join the Association, the scheme conserves all the cherished freedom of the present banking system.

H. C. McLEOD.